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世界工商管理名典系列 (影印版)

# Foundations of Finance

The Logic and Practice of Financial Management  
Second Edition

## 财务学基础

财务管理逻辑与实务

(第二版)

Keown  
Petty  
Scott  
Martin



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Prentice Hall

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# Foundations of Finance

*The Logic and Practice of Financial Management*

*Second Edition*

## 财务学基础

财务管理逻辑与实务

(第二版)

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## 出版说明

为了适应我国社会主义市场经济的建设和发展,满足国内广大读者了解、学习和借鉴国外先进的管理经验和掌握经济理论的前沿动态,清华大学出版社与 Prentice Hall 国际出版公司合作影印出版一系列英文版经济管理方面的图书。我们所选择的图书,基本上是已再版多次、在国外深受欢迎、并被广泛采用的优秀教材,绝大部分是该领域中较具权威性的经典之作。在选书的过程中,我们得到了很多专家、学者的支持、帮助与鼓励,在此深表谢意!本书由对外经济贸易大学蒋屏女士审阅,在此一并致谢!

由于原作者所处国家的政治、经济和文化背景等与我国不同,对书中所持观点,敬请广大读者在阅读过程中注意加以分析和鉴别。

我们期望这套影印书的出版对我国经济科学的发展能有所帮助,对我国经济管理专业的教学能有所促进。

欢迎广大读者给我们提出宝贵的意见和建议;同时也欢迎有关的专业人士向我们推荐您所接触到的国外优秀图书。

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*To my parents, from whom I learned the most.*

—Arthur J. Keown

*In memory and appreciation of my parents, John and Kate Petty, for their enduring love and constant encouragement.*

—J. William Petty

*To my wife, Peggy.*

—David F. Scott, Jr.

*In loving memory of my mother, who was ever encouraging, and to my father, whose life I seek to emulate.*

—John D. Martin

## PREFACE

In finance, our goal is to create wealth. This is done by providing customers with the best product and service possible, and it is the market response that determines whether we reach our goal. We are very proud of the market reaction to the first edition of *Foundations of Finance*; the market's response to it was overwhelming. With its success comes an even greater responsibility to deliver the finest possible textbook and supplementary package possible in the Second Edition. To do this we have taken a two-pronged approach of refinement, based upon users' comments, and of remaining the innovative leaders in the field, focusing on value-added innovations.

From students and instructors alike, the reaction to the First Edition was that it was "intuitive"—allowing the reader "to see the forest from the trees"—and it was "lively and easy to read." In the second edition of *Foundations of Finance*, we have tried to build on these strengths, introducing the latest concepts and developments in finance in a practical and intuitive manner.

### **Pedagogy That Works**

This book provides the student with a conceptual understanding of the financial decision making process, rather than just an introduction to the tools and techniques of finance. For the student, it is all too easy to lose sight of the logic that drives finance and focus instead on memorizing formulas and procedures. As a result, students have a difficult time understanding the interrelationships between the topics covered. Moreover, later in life when the problems encountered do not match the textbook presentation, students may find themselves unprepared to abstract from what they learned. To overcome this problem, the opening chapter presents ten underlying principles or axioms of finance, which serve as a springboard for the chapters and topics that follow. In essence, the student is presented with a cohesive, interrelated perspective from which future problems can be approached.

With a focus on the big picture, we provide an introduction to financial decision making rooted in current financial theory and in the current state of world economic conditions. This focus is perhaps most apparent in the attention given to the capital markets and their influence on corporate financial decisions. What results is an introductory treatment of a discipline rather than the treatment of a series of isolated problems that face the financial manager. The goal of this text is not merely to teach the tools of a discipline or trade but also to enable students to abstract what is learned to new and yet unforeseen problems—in short, to educate the student in finance.

### **Innovations and Distinctive Features of the Second Edition**

**New: Introduction of an Integrated Learning System** The text has been reorganized around the learning objectives that appear at the beginning of each chapter to provide the instructor and student with an easy-to-use integrated learning system. Numbered icons identifying each objective appear next to the related material

throughout the text and in the summary allowing easy location of material related to each objective.

**New: Opening Vignettes** Each chapter begins with a new current, real-world story about a financial decision faced by a company related to the chapter material that follows. These vignettes have been carefully prepared to stimulate student interest in the topic to come and can be used as a lecture tool to stimulate class discussion.

**New: Key Terms Identified in the Margins** Key terms are highlighted in the margin with definitional material italicized in the text and can also be found in the glossary in the back of the book, making it easier for the student to check their understanding of key terms. At the end of each chapter key terms are listed along with page numbers as a study checklist for students.

**New: Comprehensive End-of-Chapter Problems** A new comprehensive problem has been added at the end of almost every chapter covering all the major topics included in that chapter. This comprehensive problem can be used as a lecture or review tool by the professor. For the student, the comprehensive end-of-chapter problems provide an opportunity to apply all the concepts presented within the chapter in a realistic setting, thereby strengthening their understanding of the material.

**Ten Axioms of Finance** The fundamental principles that drive the practice of corporate finance are presented in the form of ten axioms. These axioms first appear in Chapter 1 and thereafter appear in in-text inserts called "Back to the Foundations." These inserts serve to refocus the students' attention upon the underlying principles behind what is being done. In effect, they serve to keep the student from being so wrapped up in specific calculations that the interrelationships and overall scheme are lost.

**Pause and Reflect** In-text inserts titled Pause and Reflect appear throughout the text, serving to direct the student's attention to the "big picture." The use of these Pause and Reflect inserts coupled with the use of the ten axioms keeps the student from losing sight of the interrelationships and motivating factors behind what is being done.

**Financial Management in Practice** Strong emphasis is also placed upon practice, where practice is used to demonstrate both the relevance of the topics discussed and the implementation of theory. Moreover, to add life to the discussion, "Financial Management in Practice" boxed inserts are provided throughout the text.

**Financial Calculators** The use of financial calculators has been integrated throughout this text, especially with respect to the presentation of the time value of money, where appropriate calculator solutions appear in the margin.

**Content Updating** In response to both the continued development of financial thought and reviewer comments, changes have been made in the text. Some of these changes include:

**Chapter 1** In response to comments from reviewers and adopters, we have simplified the tax section of Chapter 1, focusing on those aspects of the tax code that affect financial decisions directly. In addition, again in response to comments from reviewers and adopters, a tenth axiom, "All Risk Is Not Equal—Some Risk Can Be Diversified Away and Some Cannot," has been introduced. This axiom provides an intuitive presentation of the logic behind the concepts of systematic and unsystematic risk.

**Chapter 2** Several changes are spread throughout this chapter in response to suggestions from reviewers. The relationship of Federal Reserve monetary policy to the cost of capital is related through the *opportunity cost of funds* concept. The relationship between risk and return (Axiom 1) is clarified with the incorporation of sharper and more complete graphics. Interest rate levels and inflation rates over the 1981–1995 period are studied within the context of explaining interest rate determi-

nants. The significant difference between real and nominal interest rates is put into context of a financial analyst's viewpoint on the subject.

**Chapter 3** The use of a firm familiar and of interest to the students—the McDonald's Corporation—has been introduced to demonstrate the use of financial ratios.

**Chapter 4** Much of this chapter was rewritten and simplified to make it accessible to the non-accounting student. For example, the mathematical presentation from the first edition has been replaced by a more intuitive discussion including simple examples to illustrate the concepts involved.

**Chapter 5** The mathematics of continuous compounding have been dropped from this chapter in an attempt to eliminate unnecessary and confusing mathematics. In addition, annuities due have been introduced, reflecting their importance and the importance of understanding the time value of money calculations.

**Chapter 7** This chapter has been revised to reflect the use of the Internet by companies to communicate with the firm's investors. In addition, this chapter now includes a tutorial on how to read stock quotes in the *Wall Street Journal*.

**Chapter 8** New real-world examples have been introduced that illustrate how diversification across different types of assets affects a portfolio's risk and average returns.

**Chapter 9** Based on the comments from adopters and reviewers the presentation of the discounted payback period has been dropped.

**Chapter 10** In response to comments from reviewers and adopters, we have simplified the approach to risk adjustment in capital budgeting by eliminating the presentation of the certainty-equivalent approach.

**Chapter 11** The entire chapter has been re-written with the objective of simplifying the materials presented and the methods used in their presentation. We have eliminated the discussion of multiple "break points" in the marginal cost of capital schedule. Although the discussion of break points is valid, it adds unnecessary complexity to the discussion of the cost of capital concept.

The problem set has been edited and expanded to reflect the revision to the chapter content. Overall this chapter, which is traditionally a very difficult one for introductory students, has been simplified and refocused on the core concept of the weighted average cost of capital.

**Chapter 12** At the suggestion of reviewers this chapter was streamlined in several places, while retaining the proper emphasis on the relationship between financial leverage use and capital structure design. Real-world discussions revolve around the Coca-Cola Company, Chevron Corporation, and Phillips Petroleum.

**Chapter 15** The chapter includes actual company examples and discussions that include General Motors, the Walt Disney Company, and IBM. The yield structure on marketable securities is studied over a 16-year period to emphasize fundamental rate and risk differentials. This chapter has also been shortened at the request of reviewers.

**Chapter 17** The discussion of executive compensation has been updated to reflect current developments.

## Supplements

**Instructor's Manual with Solutions** The Instructor's Manual, which was prepared by the authors, contains the following four elements for each chapter: a chapter orientation, which offers the instructor a simple statement of the author's intent for the chapter as well as providing a useful point of departure for in-class lecture; a chapter outline for easy reference to key issues; answers to all end-of-chapter questions in the text; and a second set of alternative problems with answers.



**Test Item File** The Test Item File, prepared by the authors, provides more than 1400 multiple-choice, true/false, and short-answer questions with complete and detailed answers. We have carefully examined all the test questions as to their appropriateness and updated them where needed.

The Test Item File is designed for use with the Prentice Hall Custom Test, a computerized package that allows users to custom design, save, and generate classroom tests. This Windows-based test program permits professors to edit and add or delete questions from the test item file, and to export files to various word processing programs, including WordPerfect and Microsoft Word.

**The New York Times "Themes of the Times"** *The New York Times* and Prentice Hall are sponsoring "Themes of the Times," a program designed to enhance student access to current information of relevance in the classroom. Through this program, the core subject matter provided in the text is supplemented by a collection of articles from one of the world's most distinguished newspapers, *The New York Times*. These articles demonstrate the vital, ongoing connections between what is learned in the classroom and what is happening in the world around us. To enjoy the wealth of information of *The New York Times* daily, a reduced subscription rate is available. For information, call toll-free: 1-800-631-1222.

**PHLIP** (Prentice Hall's Learning through the Internet Partnership) at <http://www.prenhall.com/phlip> Developed by Dan Cooper at Marist College, PHLIP provides academic support for faculty adopting this text. From the PHLIP Web site you can download supplements and lecture aids such as instructor's manuals, lecture notes, PowerPoint presentations, problem and case solutions, and chapter outlines. We have chosen to deliver information electronically so you can be assured that you are getting the very latest in support materials.

PHLIP also helps you bring current events into the classroom. Through services such as PHLIPping Through The News, you and your students can access the most current articles of relevance to economics. Tony Pizelo of Spokane Community College and Metropolitan Investment Securities reviews the most current articles and prepares topic summaries, discussion questions, group activities, and research ideas for those articles. Updated every two weeks, these stories are keyed to specific chapters in the text providing the instructor with an infinite and invaluable teaching tool. Call your Prentice Hall sales representative to get the necessary username and password to access these digital supplements or contact Prentice Hall Sales directly at [college\\_sales@prenhall.com](mailto:college_sales@prenhall.com) and we'll have your local representative contact you right away.

**PowerPoint Presentation Graphics** Prepared by Terry Maness, the Dean of Baylor University's College of Business, these PowerPoint graphics provide individual lecture outlines to accompany *Foundations of Finance*. These lectures are class tested and can be used as is or easily modified to reflect your specific presentation needs.

**Spreadsheet Problem Disk** (Available for download at <http://www.prenhall.com/phlip> [click on Finance and then Student Supplements]) In addition to the solutions being provided in the Instructor's Manual, we have also developed spreadsheet solutions to almost all of the end-of-chapter problems. The solutions have been prepared in Excel, but they can be converted into Lotus. The user can change the assumptions in the problem and thereby generate new solutions.

**Color Transparencies** Approximately 150 four-color acetates of the major figures in the text are available. In addition, a complete set of transparency masters will be available to download from the Prentice Hall web site.

**Study Guide** Also written by the authors, the Study Guide contains several innovative features to help the student of *Foundations of Finance*. Each chapter begins with an overview of the key points of the chapter, which can serve both as a preview and quick survey of the chapter content and as a review. There are problems

(with detailed solutions) and self-tests that can be used to aid in the preparation of outside assignments and to study for examinations. The problems are keyed to the end-of-chapter problems in the text in order to provide direct and meaningful student aid. Multiple-choice and true/false questions are also included to provide a self-test over the descriptive chapter material.

The Study Guide also offers a tutorial on capital budgeting that can help the student work through this important topic on an individual basis at his or her own pace. A helpful teacher's note on understanding the rationale and logic of the internal rate of return is also included in this Study Guide. Students frequently learn the procedure for computing a project's internal rate of return but fail to grasp the meaning or the reason for its computation. This brief note helps the student better understand this important concept and tool of finance.

A complete article from *Financial Practice and Education* appears at the end of the Study Guide, which demonstrates the use of a variety of financial calculators. Students have found the article extremely helpful in getting started at using a financial calculator. Finally, in addition to the tables giving compound sum and present value interest factors, the Study Guide now includes tables that show how to compute the interest factors using a financial calculator.

**Student Lecture Notes** (Available for download at <http://www.prenhall.com/phlip> [click on Finance and then Student Supplements]) The Student Lecture Notes provides the student with a printed copy of all the PowerPoint presentation graphics in a workbook format.



**FinCoach Version C (ISBN 0-13-552275-7)** FinCoach, a Windows-based software designed to teach the student, within a matter of hours, how to solve practically any mathematical problem in corporate finance, is also available to the students. It provides a step-by-step problem-solving guide with over 5 million practice problems and self-tests in valuation of single cash flows, valuation of multiple cash flows, valuation of infinitely many cash flows, bond valuation, stock valuation, cost of capital, portfolio diversification, CAPM, project and firm valuation, NPV, IRR, and Profitability Index. It allows the student to save problems, review them, print them, and more. FinCoach Version C is available through any college bookstore.

As a final, but important, comment to the teacher, we know how frustrating errors in a textbook or instructor's manual can be. Thus, we have worked diligently to provide you with as error-free a book as possible. Not only did we check and recheck the answers ourselves, but Prentice Hall hired faculty members at other universities to check the accuracy of the problem solutions. We, therefore, make the following offer to users of *Foundations of Finance*.

Any professor or student identifying an error of substance (e.g., an incorrect number in an example or problem) in *Foundations of Finance*, in either the text or the instructor's manual, that has not been previously reported to the authors will receive a \$10 reward. If a series of related errors occurs resulting from an original error, the reward will be limited to a maximum of \$20 for the group of errors. Please report any errors to Art Keown at the following address:

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